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SUBJECT: PM TOPOLANEK'S YEAR OF PAINFUL VICTORIES

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Classified By: POLEC COUNSELOR MICHAEL DODMAN FOR REASONS 1.4 (B) AND (D).

11. (C) Summary: Czech PM Topolanek's government marked its first year in office on January 19. Topolanek described the past year as one of "painful victories," an assessment that is right on the mark. Topolanek, who is governing with an evenly split parliament, has managed to advance his reform agenda and keep his coalition together in the face of strengthening opposition and intra-coalition disputes. In 2008, Topolanek will face numerous challenges, from the presidential election in February to missile defense to the next round of economic reforms, that could make this year even more painful than the last. However, the real test for Topolanek will be whether he can establish a cooperative relationship with the opposition to ensure the success of missile defense and set the stage for the Czech EU presidency. End Summary.

THE VICTORIES

12. (C) For Mirek Topolanek, 2007 was without a doubt a success. First and foremost, the Topolanek government survived. The government's victories in the January 19, 2007 vote that brought it into power, as well as two other votes of no confidence, demonstrated that the conflict-riven coalition could come together -- and could count on the votes of the two opposition renegades -- when it mattered. What is perhaps even more impressive than Topolanek's ability to stay in power is his willingness to tackle politically unpopular issues, such as reforms and missile defense. The public finance reform bill passed in August 2007 did not win Topolanek any political points (ref A), and neither did his government's agreement to enter into negotiations with the United States on locating an MD radar in the Czech Republic. The positive decision on the radar negotiations is perhaps even more impressive than the reforms because the issue was not included in the coalition agreement and was not necessarily welcomed by the Green Party, one of the two smaller coalition partners. Other victories like the December votes on the budget and foreign deployments, including the new Czech PRT in Afghanistan, as well as the Czech entry into the Schengen zone, are examples of Topolanek and his team's persistence and hard work.

THE PAIN

13. (C) The pain of Topolanek's victories is primarily caused by the weak coalition which he leads and divisions within the coalition parties themselves. In a recent interview, Topolanek acknowledged the frustration of governing with his less-than-certain mandate and his less-than-stable coalition partners. Relying on two opposition renegades in the evenly

split parliament has made every important vote into a hair-raising experience. Even worse, the two renegades have proven to be more reliable than some coalition parliamentarians. Topolanek and then DPM Cunek spent hours trying to address concerns of KDU-CSL deputy Ludvik Hovorka, who in the end voted against the public finance reform bill in August. Another defection was committed by a Green deputy in the December budget vote. The danger of such defections and the need to rely on the two renegades repeatedly forced the government to sweeten the controversial bills, like the reform package and the budget, with a little something for everyone.

THE FAILURES

14. (C) Although Topolanek has stated that he considered the declining popularity of his government his only failure in 2007, in our view, there have been others. Perhaps the most important failure being the loss of a certain degree of legitimacy and credibility. The very first vote that brought the Topolanek government into power was won only thanks to two opposition parliamentarians who -- for unknown reasons -- decided to cross the aisle. The opposition immediately cried foul and accused the government of buying the two votes. That criticism has not abated and as long as the two renegades continue to vote with the government, the image of political corruption will dog Topolanek and make any commitments to transparency ring hollow. The three parties in the Topolanek cabinet also failed to keep their internal problems from affecting the work of the government. The Greens' internal war continues following the forced resignation of former Minister of Education Dana Kuchtova, constraining the party chairman and DPM Martin Bursik. The

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ongoing corruption scandal and the cabinet departure-return saga of KDU-CSL chairman and former DPM Jiri Cunek continues to weigh down the coalition. Finally, Topolanek's own ODS remains divided, with potential challengers for the party chairmanship pressuring him on several fronts, but especially with regard to the upcoming presidential election.

CHALLENGES AHEAD

15. (C) With only two weeks left before the February 8 presidential election, the first serious challenge of 2008 is looming. This is a challenge for Topolanek personally because if President Klaus is not reelected, Topolanek could be in danger of losing the support of his own ODS. Even if Klaus gets another term at the castle, as we expect, Topolanek's long-term survival as head of the ODS -- and the government -- is not assured. If the ODS fares poorly in the fall regional elections, Topolanek will undoubtedly be challenged at the December 2008 party congress.

16. (C) Chronologically, the next likely challenge will be the parliamentary vote on missile defense, which we expect to occur in late spring or early summer. In this vote, the lack of reliability of some coalition deputies could come into play. Recently, Defense Committee Chairman Jan Vidim told us that in his rough estimation the government had 100 pro-MD votes in the lower chamber. He expected that Hovorka and one Green deputy would vote against the agreements. Vidim's is an optimistic scenario because we have heard from other political leaders that the Green votes and those of other KDU-CSL deputies were not at all assured. To get the minimum 101 votes in favor, Vidim told us that they will need some opposition support.

17. (C) Politically-charged reforms of the pension and health-care systems will come later in the year, along with regional elections. As the year progresses, more and more of the government's attention, energy, and resources will be sapped by preparations for the EU presidency, which the

Czechs hold in the first half of 2009. Topolanek remains outwardly optimistic, claiming that he plans to be Prime Minister for another six years. However, he himself admits that there are hundreds of possible factors that could break apart his coalition. Perhaps not hundreds, but the key challenges named here certainly hold that potential.

COMMENT

18. (C) Topolanek has surprised many observers by his survival skills and his commitment to continue with his reform agenda despite significant political odds. The turmoil in his coalition and within the three coalition parties may force Topolanek to consider other options to overcome the challenges ahead. We have heard it said that the Czech government is functioning less smoothly than in the past. Former PM Zeman and current President Klaus were political rivals in the 1990s, but on key priorities like Czech membership in NATO, they could become partners. Topolanek and Jiri Paroubek, leader of the main opposition party CSSD, have not exhibited many signs of partnership yet, but this may be changing. Topolanek did not make a serious effort to work with the opposition on the key 2007 votes, with the exception of the foreign deployments bill. However, last fall, Paroubek offered to discuss with Topolanek a possible political cease-fire in advance of and during the Czech EU Presidency. Topolanek in turn recently admitted that he met in December with Paroubek one-on-one to discuss reforms. This is a good sign that relations between the two political leaders are not so sour as to prevent their discussion of a possible political deal on reforms, and perhaps on MD as well. What such a deal might entail is difficult to speculate, but we have heard from several people in Paroubek's own CSSD that he is a businessman and could enable passage of the MD agreements if the price were right. Graber